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CURRENT INTELLIGENCE DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Dept. review completed

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GENERAL

- I. Moscow and Peiping act on provisions of 1950 treaty: The first announcement of results of the past month's Sino-Soviet talks in Moscow reveals agreement on control of the Chinese Changchun Railway and the stationing of Soviet troops in Port Arthur, the only two items in the 1950 treaty which require action during 1952. The Soviet Union will still exercise considerable control of the railway because of China's continued dependence on the USSR for advisory and technical aid, rolling stock and other railroad materials. The agreement extending the tenure of the Port Arthur forces -- an estimated 60,000 Soviet ground troops, plus naval and air forces -- is explicitly directed, as was the 1950 treaty, against the threat of Japanese "aggression."

The communique implies, in referring to Sino-Soviet discussion of "important economic and political questions," that, as in 1950, subsequent announcements will reveal several specific agreements on Soviet economic aid and joint ventures. The substance of military agreements will presumably not be revealed.

A tripartite political and economic agreement with Outer Mongolia, which was represented at the talks may also be forthcoming.

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2. Austro-Hungarian trade talks probably will lead to reciprocal opening of the Danube: Austro-Hungarian negotiations which led to the signature of a trade protocol on 11 September also produced an agreement in principle on reciprocal navigation of the Danube River, according to the US Legation in Budapest. Moreover, an official of the shipping office of the Austrian Ministry of Transportation recently revealed that discussions on the shipping question would be resumed in Vienna in about six weeks, and Austrians hoped that traffic might begin next spring.

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Comment: Soviet interest in increasing the volume of Danube traffic was indicated early this summer when the joint

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Soviet-Hungarian shipping firm reportedly attempted to secure an official trade license from the Austrian Government, to legalize its navigation of the Austrian Danube. Subsequently the USSR gave Austrian ships permission to navigate the Soviet zone portion of the river.

Hungary's trade with Austria has been declining during recent years because of priority assigned to trade with the Soviet bloc and lack of foreign exchange, as well as US export controls on Austria. Moreover, Hungary has consistently been in arrears in both its deliveries and payments. Its combined export-import trade with Austria amounted only to approximately 160,000,000 schillings in the first 5 months of 1952 (about \$33,000,000 at the current rate of exchange).

SOVIET UNION

3. Chief engineer and designer of Volga-Don Canal signs Chernyshev's obituary: The name of Lt. Gen. S. Y. Zhuk, the Chief Engineer and designer of the Volga-Don Canal, appeared among the signatures on the obituary of Colonel General V. V. Chernyshev, former Deputy Minister of Internal Affairs.

The American Embassy in Moscow believes this further supports previous evidence that the MVD had the primary responsibility for the construction and completion of the Volga-Don project. [redacted]

Comment: Zhuk has had a long association with MVD construction work; he played a leading part in the building of the Baltic-White Sea Canal, an MVD project, and was reportedly a close associate of Chernyshev. Zhuk is currently believed to be the head of the Directorate of Hydrologic Planning of the MVD.

EASTERN EUROPE

4. Premier Hoxha makes speaking tour in northern Albania: In a tour of northern Albania during the past week, Premier Hoxha made major speeches at the Bulqize chrome mines, Peshkop, Kukes, Tropoje, Puke and Mirdite, all cities lying west of the Yugoslav border. Hoxha urged vigilance against Titoist

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agents, and alleged that the Albanian minority in Yugoslavia was being unmercifully persecuted. He violently attacked western designs on Albania and condemned the evil influence of the Albanian beys. Instead of criticizing the population for shortcomings, Hoxha commended individuals for their contributions to industry and agriculture and outlined the developments for the area envisaged in the Five-Year Plan.

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Comment: The timing, content, and tone of Premier Hoxha's speeches in northern Albania provide strong confirmation of reports that there is considerable disaffection and unrest in the area. The appeals for vigilance against Titoist agents indicate that he fears the effects of Yugoslav attempts to exploit the situation.

Three additional Albanian regiments were reportedly moved into the Yugoslav border area by early August to reinforce the division already stationed there.

5. Bulgaria continues to protest activities of Yugoslav diplomatic personnel: In a note delivered to the Yugoslav Legation in Sofia on 13 September, the Bulgarian Ministry of Foreign Affairs charged that some employees of the Yugoslav diplomatic mission in Sofia had violated generally acknowledged rules of international law by engaging in spy activities under the cover of diplomatic immunity, and warned that responsibility for consequences arising from the continuation of such activities must be borne exclusively by the Yugoslav Government.

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Comment: Since May there has been a steadily increasing traffic of protest notes between Yugoslavia and Bulgaria. The entire Yugoslav diplomatic mission, with the exception of one low-ranking attache, was recalled to Belgrade in June following a series of incidents involving the mistreatment of diplomatic personnel and other Yugoslav nationals.

Although Yugoslavia's relations with other Satellites have continued to be tense and unfriendly, no marked deterioration paralleling the recent developments in Bulgaria has been noted elsewhere.

6. Housing conditions becoming progressively worse in Warsaw: Population increases in Warsaw are outstripping housing development, according to figures listed in Polish newspapers during July and August. The population is reported at 854,000, which

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if true, would indicate an annual increase of 60,000 since 1949. On the other hand another article reported the completion of 5,878 new dwelling rooms in Warsaw during the first half of 1952, an achievement of less than 70 percent of the previously announced plan.

The American Embassy in Warsaw points out that even if the announced quota is achieved for the rest of the year, it will only amount to about 80 percent of the plan. 25X1

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7. Rumanian "sabotage" trials continue: A trial of several "saboteurs, venal persons, and embezzlers" from the Central Union of Artisans Cooperatives and other cooperatives began on 12 September in Bucharest. On 14 September the culprits received sentences of from two to 14 years imprisonment for plundering large amounts of cooperative and state property with the complicity of some corrupt officials in the Ministry of Finance and the State Bank. 25X1

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Comment: This follows the trial and drastic punishment last month of ten alleged saboteurs of the Danube-Black Sea Canal. Both trials have implicated former Finance Ministry officials and cohorts of the purged Vasile Luca. The American Legation in Bucharest has heard that another trial of "saboteurs" in the Hunedoara Steel Mills may soon be announced.

Similar trials of technicians took place in Czechoslovakia in July.

8. Rumanian newspaper distribution criticized: The Bucharest radio quotes an editorial from Scanteia, official organ of the Rumanian Workers' Party, which complains that 80 percent of newspapers are sold in urban areas while distribution in the countryside is said to be subject to "considerable delay." Scanteia demands that the Ministry of Posts and Telecommunications apply "the rich experience of the Soviet press" and radically improve press distribution. People's councils are expected to hasten the building of post offices or facilitate delivery of newspapers to peasants' homes. Only class enemies are said to be interested in preventing "the fighting calls of the party" from reaching the masses in time. 25X1

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Comment: Distribution of the press came under the Ministry of Posts and Telecommunications last month. The network of post

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offices was to be extended, especially in rural areas, and people were to be encouraged to become regular newspaper subscribers.

9. Tito offers new approach to Italo-Yugoslav relations: Marshal Tito, speaking in Slovenia on 14 September, stressed the need for Italo-Yugoslav cooperation on problems other than Trieste, namely "safeguarding against aggression" and "economic exchanges." He also suggested that the Trieste issue could be put aside for the time being if it cannot be solved to mutual advantage.

A similar comment on Italo-Yugoslav relations was broadcast by Radio Belgrade the following day. [redacted]

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Comment: Yugoslavia's reply to the American-British-French proposal for Italo-Yugoslav negotiations on Trieste was described by the US Embassy in Belgrade as "completely negative." From the Yugoslav point of view, the status quo in the Free Territory is more to their advantage than the results of any negotiated settlement. It is significant, however, that Tito is stressing an interest in Italo-Yugoslav cooperation for defense against aggression, because it is the first time that the Yugoslav regime has shown a willingness for military cooperation with Italy. It is likely, however, that this approach will find the Italians unreceptive.

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FAR EAST

10. Japanese Socialist negotiates for Burmese rice: Seiichi Katsumata, representative of Japan's Leftist Socialist Party, conducted rice negotiations with Ba Swe, Burmese Defense Minister, during his recent visit to Burma, according to Ambassador Sebald in Rangoon. The Japanese Consul General informed Sebald that the attempted procurement of rice by the Socialist Party representative was made in an effort to embarrass the Japanese Government, which has been unable to secure more Burmese rice. Ba Swe reportedly has withheld a decision. [redacted]

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Comment: The negotiations were undertaken as a pre-election demonstration of the Leftist Socialist Party's influence among Asian nations. Party Chairman Suzuki claims that the negotiations were instigated at the request of Burma, which specified that a Leftist Socialist conduct the talks. Suzuki attributes Japanese failure to purchase rice to Burmese dislike for the Yoshida government's pro-American policy. The fact that Ba Swe by-passed the Japanese Consul General to deal with a representative of a minor opposition party may be due to his position as Secretary General of the Burmese Socialist Party, which is currently attempting to advance its prestige and influence among all Asian Socialists.

11. US official in Korea advises secrecy in connection with fiscal change: American Charge Lightner in Pusan feels that the US should not inform the ROK in advance of the United States' impending announcement of a change in the official won-dollar exchange rate. In his opinion, there will inevitably be a storm of protests from South Korean officials which will be increased if advance notice is given. The ensuing public outcry, official statements and the like would put the US on the defensive and in general make things more difficult. Lightner believes that the US should have the first word, explaining the reasons and announcing the change in a calm, dignified manner in all public media at the right time. [redacted]

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Comment: The ROK Government has been adamant in demanding the retention of the current 6,000 won to one US dollar rate. However, this rate is highly unrealistic as foreign traders are receiving 24,000 to 1 in the open market and based on the present world market price of rice, the exchange would be about 45,000 to 1.

12. South Koreans appear to have deliberately underestimated 1952 rice crop: A survey of the 1952 South Korean rice crop conducted jointly by UN agencies, the US Embassy and the Korean Government indicates that the crop is in "excellent condition" with the yield estimated at 2,143,000 metric tons. ROK officials had maintained, on the basis of a private survey, that there would be a severe shortage in this year's crop with a yield of only 1,370,000 metric tons. The US Embassy comments that in the ROK survey, "politicians" evidently ordered provincial officials to give quite low rice figures, thus deliberately underestimating the rice crop, as was done last year. [redacted]

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Comment: A principal reason for ROK officials' underestimating the rice crop is to influence external purchases of the grain. A South Korean mission is currently in Thailand attempting to secure an "emergency" rice loan. The government also may be building up its case for increased US aid.

13. Communist propaganda allegedly demands return of Hong Kong: A reliable foreign observer reports that the propaganda loudspeaker on the Canton-Hankow railway recently asserted that "China must take back Hong Kong." The American Consulate General at Hong Kong, noting that this theme has not appeared in recent months in the mainland press and that there is no evidence of a military build-up against Hong Kong, regards this report as "routine propaganda." [redacted]

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Comment: There are no indications of an imminent Communist demand for the return of Hong Kong. Peiping last week made an unexpected conciliatory gesture toward the British by granting an entry permit to a replacement officer for the British Embassy in Peiping.

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SOUTHEAST ASIA

- 25X1 14. Philippines seeking "pretext" to recognize Indochinese states: The American Embassy in Manila has been informed by French diplomatic officials and by the Philippine Under-secretary for Foreign Affairs that the Philippine Government wishes to recognize the Associated States of Indochina as soon as possible. The Undersecretary informally asked for American assistance in devising a "pretext" for such recognition. [redacted]

Comment: Philippine recognition has long been sought as a means of enhancing the prestige of the Associated States. The former Philippine Secretary for Foreign Affairs, Carlos Romulo, frequently cited his country's nonrecognition as proof that the Philippines was not subservient to American foreign policy.

- 25X1 15. Burmese request for Communist economic aid reported: The acting Japanese Consul General in Rangoon told the American Embassy that he had been reliably informed that the Burmese Government had sent notes to Moscow and Peiping requesting economic aid. He added that Peiping had countered by suggesting the dispatch of a mission to explore the matter. The Embassy comments that it has no confirmation of this development and questions the Japanese official's motives. [redacted]

Comment: It is possible that the Japanese Consul General obtained this information from members of the left-wing Japanese Socialist Party mission now visiting Burma, which has been in contact with high Burmese authorities, including Defense Minister Ba Swe. Burmese leaders have often stated they would accept aid from any source so long as there were "no strings attached."

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NEAR EAST - AFRICA

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18. South African Prime Minister to insist on republic:
Prime Minister Malan said that he and his Nationalist Party would "insist" on turning South Africa into a republic and "no power in the world would stop it." He promised at a political rally that the change in status from dominion to republic would occur only after a special referendum. Malan declared that India was South Africa's greatest enemy and was currently blackmailing the West by using its neutral position in the East-West struggle.

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Comment: The Nationalist Party has consistently favored a republic. The extremists wish to leave the Commonwealth, while Malan and the moderates would remain in it for a time. Malan's criticism of India has general white support in the Union, where the Indians and natives are currently staging a defiance campaign against the government.

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WESTERN EUROPE

19. East German trade propaganda seen directed against Western strategic materials controls: East German propaganda on inter-zonal trade is primarily designed, in the view of American officials in Berlin, to channel West German "pressure" for expanded trade between the two Germanys into an effort to seek modification or elimination of strategic trade controls. These officials point out that the East Germans are more interested in specific West German goods of strategic or near-strategic importance than in a greater volume of trade. Recent East German propaganda support for West German businessmen who desire trade with the East is therefore regarded as a "serious effort" to gain access to materials needed by the East German economy. 25X1
[redacted]

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Comment: East German propaganda, holding out the prospect of a wider and stable export market, is similar to the East-West trade propaganda which has proved relatively effective among Austrian business circles. Pressure from Austrian "industrialists," for example, has been held largely responsible for the Austrian Government's decision to seek a trade agreement with the Soviet Union.

20. Austrian election issues seen shaping up around American policies: Bombastic speeches by Socialist leaders and mounting criticism of the coalition government by extremist elements may indicate early parliamentary elections in Austria. Although the present term of parliament would normally run until the fall of next year, either coalition party could force an election at any time.

The United States is likely to be drawn into the political skirmishes now shaping up. With unemployment running 64 percent above last year, the Socialists will probably insist on a "full employment budget," in opposition to American efforts to promote a more conservative financing policy. Government requests in preliminary discussions of the 1953 budget are reportedly running 20 percent above last year's record. The budget director is said to anticipate a sharp conflict between Socialist demands for investment funds and People's Party opposition to a program for which revenues are inadequate.

Possibly in an effort to improve their position on this question, the Socialists have avoided criticism of American

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policies on denazification and strategic trade controls. American attitudes on both these issues may, however, be increasingly exploited by the extreme right where the power of the former Nazis and of business circles is a prime consideration. [redacted] 25X1

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21. Gaullists more tractable on Schuman's Saar policy: A French Foreign Ministry official has informed the American Embassy that Foreign Minister Schuman is now optimistic that a Saar settlement may be possible prior to parliamentary debates on the EDC treaty. The French expect to press ahead for an early settlement once economic negotiations get under way.

The French official added that the leading Gaullist spokesman in the Council of the Republic, as well as other opposition Deputies and Senators, are now satisfied with Schuman's policy on the Saar and have agreed not to hinder him in these negotiations. [redacted]

Comment: Schuman recently revealed that he does not envisage French ratification of the EDC treaty this year.

In the past the Gaullists have consistently attacked Schuman. This indication of a more flexible Gaullist foreign policy bears out another recent report that they are less opposed to joining a coalition government.

22. Continued labor support seen for Pinay: The US Embassy in Paris reports that the Communist-led General Labor Confederation's proposal for a flat 15-percent wage increase this fall is not likely to obtain much support if the government alleviates current unemployment in the textile industry.

The Embassy points out that labor leaders prefer a left-wing government, but that unionists are privately inclined to give more time to Pinay, whose social reform program compares favorably with the records of the left-center governments since 1947. [redacted]

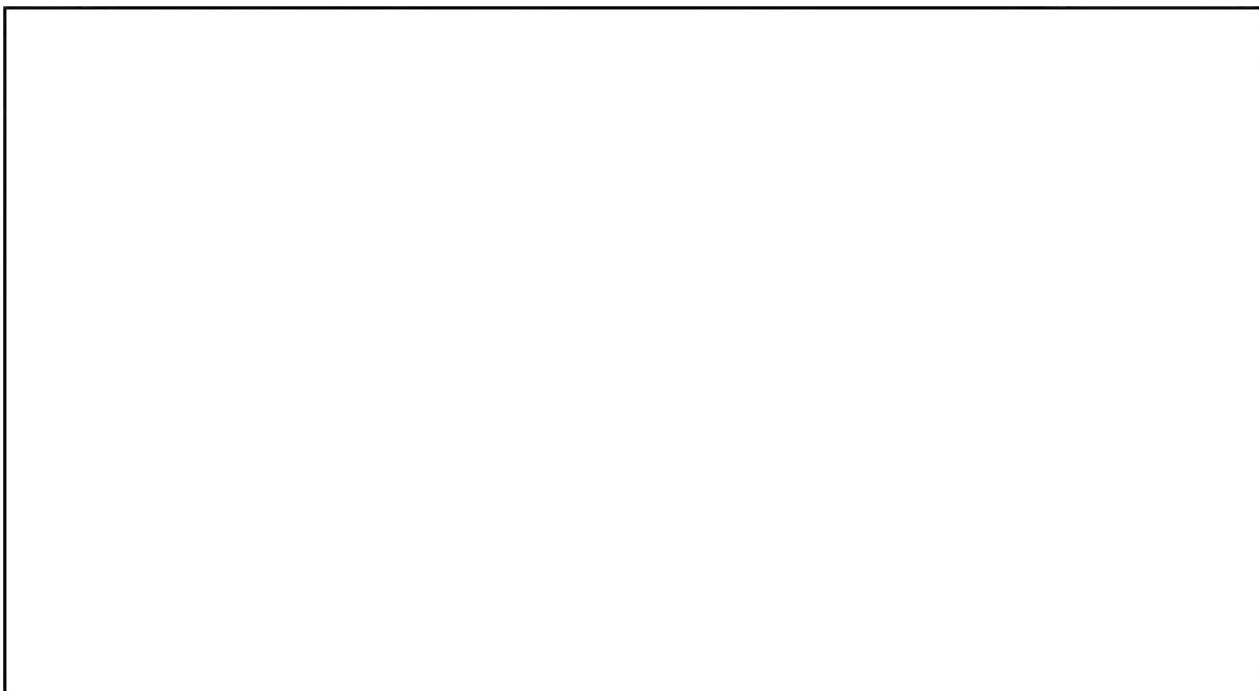
Comment: Pinay's save-the-franc program received surprisingly widespread support when it became apparent that he was actually willing to do something about matters of real concern to the French people -- higher real wages, assurances of employment, and security of savings. His recent institution of price controls has stemmed mounting popular cynicism and won him an unexpected reprieve.

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LATIN AMERICA

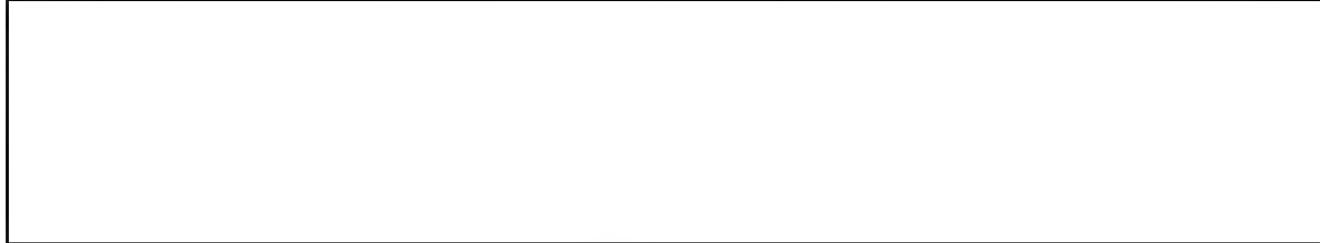
24. Dominican Republic ready to negotiate military assistance agreement with US: Foreign Minister Diaz Ordonez informed the US Embassy on 12 September that the Dominican Republic is ready to begin conversations with the United States on 22 September with a view to concluding a military assistance agreement and agreeing on a secret plan for the preparation of certain units in the Dominican armed forces for hemispheric defense missions.

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Comment: If agreement is reached with the Dominican Republic, that country will become the eighth Latin American republic to sign a bilateral military assistance agreement with the United States. Two of the countries, however, Brazil and Uruguay, have not yet ratified their agreements.

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